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**Directions
for Economic
and Social Policy
in Ontario**

**Report of The
Ontario Joint Committee
on Economic Policy**

August 1974

Ontario [Committees]

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Government
Publications

Directions for Economic and Social Policy in Ontario

Report of The
Ontario Joint Committee
on Economic Policy

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Honourable W. G. Davis, Q.C.
Premier of Ontario
Queen's Park, Toronto.

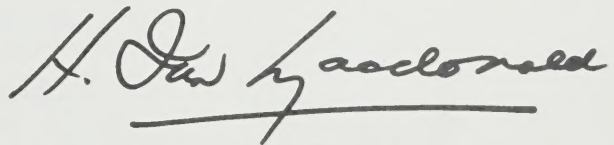
Dear Mr. Premier:

As Chairman of the Steering Committee of the Joint Committee on Economic Policy, I am forwarding to you the final report of your Committee members. This report expresses the general philosophy of the Committee members on future economic development in Ontario. In addition, it contains general recommendations for improving economic policy.

One of the major concerns of the Committee is that there should be a more comprehensive planning framework to guide the development of the Ontario economy. The Committee emphasizes that economic policies are not ends in themselves, but must be designed to support social objectives. For this reason, they should be closely coordinated with social policies. Accordingly, the Committee felt it was appropriate to consolidate within a single public report a summation of its views on directions for future economic and social policies in Ontario. While each member of the Committee does not necessarily subscribe to every recommendation presented in the report, it does reflect a consensus.

It should also be noted that because of the range of the subject matter, the level of treatment of each area is general rather than detailed. Nevertheless, the Committee is confident that the report will provide a general guide for the Ontario Government in shaping its social and economic policies as well as a focus for future public discussion.

Yours truly,

A handwritten signature in dark ink, appearing to read 'H. I. Macdonald', with a horizontal line drawn underneath it.

H. I. Macdonald
Chairman, Steering Committee
Joint Committee on Economic Policy

Attachment

August 28, 1974.

Members of the Premier's Committee

The following were members, as of August, 1974, of the Joint Committee which met regularly with the Premier.*

Hon. John White
*Treasurer of Ontario and Minister of
Economics and Intergovernmental Affairs*

Hon. Allan Grossman
*Provincial Secretary for Resources
Development*

Hon. Margaret Birch
*Provincial Secretary for Social
Development*

G. H. U. Bayly
*Deputy Provincial Secretary for
Resources Development*

A. Rendall Dick, Q.C.
*Deputy Treasurer and Deputy Minister
of Economics and Intergovernmental
Affairs*

J. D. Fleck
Secretary to the Cabinet

G. L. Reuber
*Chairman
Ontario Economic Council*

E. E. Stewart
*Deputy Minister
Office of the Premier*

D. T. Wright
*Deputy Provincial Secretary
for Social Development*

W. A. Dimma (ex-officio)
Secretary for the Committee

D. E. Redgrave (ex-officio)
Executive Director of Research

R. Cooper (ex-officio)

H. I. Macdonald, Chairman, Steering Committee
*President
York University*

David B. Archer
*President
Ontario Federation of Labour*

R. F. Bennett
*President
Ford Motor Company of Canada Limited*

R. J. Butler
*President
The T. Eaton Company Limited*

H. Corrigan
*President
Alcan Canada Products Limited*

John B. Cronyn
*Vice-Chairman
John Labatt Limited*


J. S. Dinnick
*Chairman
McLeod, Young, Weir & Company Limited*

R. M. Thomson
*President
The Toronto-Dominion Bank*

D. G. Willmot
*Chairman
The Molson Companies Limited*

* The following also served earlier on the Committee but were not members when the final report was prepared: Neil J. McKinnon; L. R. Wilson; Hon. W. Darcy McKeough; Hon. A. B. R. Lawrence, Q.C.; Hon. Robert Welch, Q.C.; Dr. Keith Reynolds and C. P. Honey.

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SUMMARY

The Joint Committee on Economic Policy was established to assist in the development and coordination of future economic policies in Ontario. From June 1972 until August 1974, the Committee met regularly with the Premier, sponsored studies and reviewed policy position papers on matters of current economic interest.

This report sets out a statement of philosophy concerning the development of future economic policies in the Province and the relationships between government and the private sector. In this context the report identifies areas where future policy development and coordination should be improved and offers recommendations concerning the formulation of these policies.

A major theme of the report is that, in future, economic performance must be compatible with social objectives related to improving the quality of life. Accordingly, the final chapter recommends a framework for integrating economic and social objectives and for improving the management of public sector programs and policy development. A summary of the report's recommendations is listed in Appendix A.

In the first chapter, the Committee recommends eleven social objectives which should guide future development and coordination of Provincial social and economic programs.

The second chapter provides a brief overview of the existing economic policies of the Ontario Government. They are considered under three broad headings: economic development, tax reform and restructuring of local government, and coordination of economic and social policy.

The third chapter outlines the Committee's recommendations for improving future economic policy development. It covers three main areas: federal-provincial coordination, private sector productivity and management of the economy.

Coordination Intergovernmental and public-private economic policy coordination must be improved. This applies particularly to federal-provincial relations. Here, progress could be made by creating a permanent forum for federal-provincial consultation.

Productivity A key aspect of future economic policy should be for government to provide a climate supportive of productivity increases in the private sector. The Committee has included a number of recommendations for improving support for management, technology and small business, and for ensuring that competition policy enhances productivity improvement.

Economic Management It will be important to improve future long-run management of the economy, particularly in the following areas:

- trade liberalization and encouragement of increased processing in Ontario of natural resources;
- reduced government spending growth as an important step in moderating inflationary pressures;
- reduced public sector demands on capital markets and improved coordination of capital investment requirements; and
- improved manpower development programs.

The fourth chapter deals with the issue of harmonizing economic and social priorities in the development of public policies. Its main concern is to identify key policy areas which provide a framework for continuing a high level of economic performance consistent with improving the quality of life in Ontario. These areas are:

Utilization of Resources Future economic and social goals will be increasingly quality oriented with emphasis on the effective utilization of human, capital and natural resources. Government must limit its future growth in relation to the private sector, and a major step would be to improve its internal management system.

Decentralization The decentralization of economic activity reduces pressure on urban areas and thus provides an environment in which economic growth is more consistent with an improving quality of life. Decentralization will involve short-run costs, but the Committee believes that in the long-run such a strategy will promote a more productive and healthier society.

Balanced Growth Policies promoting the growth of output in the economy should be compatible with the achievement of other equally important goals. The latter include maintaining stable communities and diversified employment. Two important steps which the Province should take are to diversify the industrial base in northern communities, particularly by encouraging more natural resource processing, and to ensure the protection of prime agricultural land.

Foreign Ownership The Committee recognizes the benefits associated with increasing Canadian control in the economy. The Province, in conjunction with the federal government, should gradually implement policies to increase domestic control of enterprises. However, such policies should evolve within a framework which ensures continued access to foreign financing for major investment projects.

Chapter I: INTRODUCTION

Ontario has a well-developed economy which supports one of the highest standards of living in the world. This is true whether measured in terms of growth in income, production and employment, or in the quality of education, health, environment, transportation, recreation and the administration of justice. These factors have permitted rapid urbanization to take place within conditions of social stability. Ontario's citizens are justly proud of the social harmony and economic well-being they have achieved. Accordingly, they have an optimistic and, in a sense, demanding view of the future. On average these citizens are young, well-educated and have lived through a sustained period of prosperity. They have set a high standard of personal and social achievement and are confident that our society can maintain its momentum of progressive development and change.

In future, the nature of economic performance should change so that it will be increasingly compatible with social aspirations for a better quality of life. The Province of Ontario faces the fundamental challenge of combining a rising level of real income with the maintenance and enhancement of the quality of the social and natural environment and improvements in the quality of public services. It will also be necessary to ensure that new policies include the opportunity for public participation, so as to enrich the democratic process and meet the rising expectations of citizens for a strong voice in decision-making. Therefore, Ontario's future economic policies must be compatible with aspirations for:

- improved public services;
- continued increase in the level of income and the quality of life; and
- increased citizen participation in public decision-making.

Rising aspirations could create excessive and contradictory demands on both the public and private sectors. Overemphasis on any one set of aspirations could result in unacceptable social and economic consequences. It is important that government maintain a set of coordinated policies designed to promote balanced and progressive development consistent with the varied hopes and needs of its citizens. Complete consistency and total coordination between the public and private sectors is difficult in our pluralistic society; nonetheless, the likelihood that this can be achieved is enhanced when government:

- clearly defines social objectives;
- ensures that these objectives are met efficiently and effectively; and
- develops a coordinated economic strategy consistent with these social objectives.

Although the bulk of this report is devoted to economic policy, the Joint Committee felt that it should develop a set of social objectives which the Province could use to guide the future development and coordination of its programs. Accordingly, it has identified eleven social objectives.*

* The Committee wishes to express its appreciation to Harry Meanwell of the Ford Motor Company of Canada and Robert Mifflin of The T. Eaton Company who, in conjunction with staff of the Ontario Government, prepared extensive background material which led to the formulation of these objectives.

Recommendation 1 :

The Province should adopt the following eleven social objectives:

- 1. To maintain and improve the level of health of the people of Ontario.**
- 2. To provide equality of opportunity and access to education to enable individuals to fulfil their potential as members of society.**
- 3. To ensure levels of general prosperity which provide maximum levels of employment and an equitable distribution of income.**
- 4. To protect, conserve and improve the quality of the natural environment.**
- 5. To achieve an acceptable level of social and economic interaction by ensuring the provision of transportation and communication facilities and services for the efficient and convenient movement of people, goods and information.**
- 6. To ensure a safe, secure environment which protects the basic rights of individuals and society, and which provides the means for the just resolution of conflict.**
- 7. To encourage and support the achievement of individual and collective cultural aspirations, and the development and preservation of national identity and unity.**
- 8. To preserve and strengthen our heritage of responsible and responsive democratic institutions.**
- 9. To manage the utilization of physical resources in order to provide optimum present and future social and economic benefits.**
- 10. To encourage optimum population size, distribution and density with regard to economic goals, the quality of living conditions and the fulfilment of the previous nine objectives.**
- 11. To achieve the preceding objectives within the limits imposed by maintaining sound and responsible fiscal and taxation policies.**

These objectives are broad and could be embraced by most governments in the western industrialized world. The differences between governments arise less from the choice of objectives than from the relative weight given to each objective and the means chosen to deliver the associated programs and services.

Our aim in this report is to summarize the Committee's views concerning the development of an economic policy framework which will assist in achieving these objectives in Ontario. At the outset, it should be stated that Ontario must continue to place a high priority on economic performance. In future, however, it will be increasingly important to ensure that economic performance objectives are closely integrated with those designed to improve the quality of life.

This report is divided into three parts. The first reviews the broad economic policies already developed and implemented by the Ontario Government. The second part recommends directions of future economic policies, particularly those designed to improve the climate for the development and enhancement of the private sector. In this section, recommendations are grouped under three themes: improving intergovernmental and government-business coordination,

improving productivity, and managing the economy to provide the best environment for business development. The third part of the report focuses on bringing together economic and social objectives. It deals with improving management of government programs, decentralizing economic activity, broadening the industrial base and increasing domestic control of the economy.

The Committee did not deal with every issue. For example, it did not make recommendations with respect to taxation and energy. These omissions are reflections of limited time and resources. Notwithstanding this, the Committee feels that it has considered a range of issues sufficiently broad to provide the basis for a comprehensive policy framework.

Chapter II:

POLICY FOUNDATIONS: THE STRATEGIES OF PAST AND PRESENT

The Committee notes that the Ontario Government has made substantial progress in implementing a comprehensive set of programs that provide a sound basis on which to develop future economic policies.¹ Existing economic policies are generally focused in three broad areas:

- economic development;
- tax reform and restructuring of local government; and
- coordination of economic and social policy.

Economic Development

Industrial Expansion The achievement of a high rate of economic growth, through increased productivity and employment, has been a major theme of economic policy in Ontario. The focus of this effort has been the encouragement of new and expanded industrial facilities and expansion into new markets. Central to the implementation of these policies have been the programs designed by the Ministry of Industry and Tourism to promote exports, encourage the development of new technology, expand small business, and provide employment placement services for businesses seeking skilled workers.

Transportation Ontario's development policy in the 1950's and 1960's focused on the construction of an extensive highway system as an essential support to economic activity in all parts of the province. More recently, the Province has broadened its approach to transportation by:

- implementing new local air services and improving surface facilities in Northern Ontario;
- establishing special commuter transit facilities in the Toronto region (GO Transit);
- substantially increasing financial support for the establishment, expansion and operation of municipal transit facilities; and
- encouraging the development of new transportation technology.

Energy A major advantage of lasting benefit in Ontario's industrial development has been the province-wide availability of energy, particularly electric power, at reasonable cost. In addition, the Province has implemented and encouraged measures to ensure the supply and distribution of western oil and natural gas by supporting both the development of the Trans-Canada gas pipeline and the National Oil Policy of 1961.

Ontario's present and future energy policy is directed towards the development of nuclear power generating capacity which, to date, has involved investment commitments of over \$5 billion. This expansion of nuclear technology has

1. For a review of economic policy in Ontario since the Second World War, see D. R. Richmond, *The Economic Transformation of Ontario: 1945-1973* (Toronto: Ontario Economic Council), 1974.

been highly successful, as evidenced by the performance of the CANDU reactor at Pickering, the largest operating commercial reactor in the world. To ensure that Ontario can meet future energy needs most effectively, the Province has conducted a full review of its future energy requirements, re-organized Ontario Hydro and established a new Ministry of Energy to coordinate the Province's energy policies.²

Fiscal Policy One of the most important aspects of Ontario's economic development policy has been the use of its budget plan to achieve economic stabilization objectives. Selective fiscal measures to improve short- and long-term economic performance have included:

- adoption of measures to stimulate economic expansion in the early 1970's;
- introduction of the full employment budget concept to monitor the stability of economic activity;
- anti-inflation measures introduced in 1974; and
- use of the budget to achieve income redistribution, reinforce local government financing, and improve the equity of property and sales taxes.

The general effectiveness of these policies for economic development in the Province is evidenced by the fact that over the past decade Gross Provincial Product has grown by 82 per cent in real terms. Over the same period, employment has grown by 41 per cent while real per capita income has risen by almost 70 per cent.

Tax Reform and Restructuring of Local Government

The Provincial Government has implemented a series of measures which has strengthened the financial and structural base of local governments and improved provincial-local policy-making. These measures have included:

- creation of eleven regional and district municipalities and consolidation of school board jurisdictions;
- substantially increased payments to local governments including a higher level of educational support and the introduction of the Property Tax Stabilization Plan;
- implementation of a regular consultative process between local governments and the Province, through the Provincial-Municipal Liaison Committee; and
- decentralization of some provincial responsibilities to regional governments and the increased deconditionality of provincial grants.³

Coordination of Economic and Social Policy

In the late 1960's and early 1970's, provincial policy was oriented increasingly to the qualitative aspects of economic growth. A number of programs were introduced to integrate social and economic objectives.

2. See Report of Advisory Committee on Energy, *Energy in Ontario* (Toronto: Queen's Printer), 1973 and Task Force Hydro, *Hydro in Ontario*, Reports I-V (Toronto: Committee on Government Productivity), 1972-73.
3. The financing impact on local government of these provincial-local financing initiatives is documented in Hon. John White, "Financing Development of Local Government in Ontario," *Ontario Budget, 1974*, Budget Paper B (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs), 1974.

Regional Development In 1966, the Province published the first of its Design for Development white papers.⁴ These established a planning base for the economic stimulation of slower growth regions. Activities of the Ontario Development Corporation were also expanded to encourage new employment opportunities. More recently, the Province has entered into agreements with the federal Department of Regional Economic Expansion to provide improved basic services and accelerate economic growth in Eastern and Northern Ontario.

To improve urban planning in high density areas, the Government introduced the Toronto-Centred Region concept in May, 1970. This concept and subsequent refinements have facilitated development of more comprehensive land use planning and community development in the central Ontario area.

Environment The Province also has initiated programs to improve air and water quality management and waste control, and to promote environmental protection and conservation. Included in these programs was the implementation of the International Joint Commission agreement to provide for an extensive water quality program for the Lower Great Lakes. In addition, the levels of air quality have improved substantially over the past few years as a result of Ministry of the Environment programs. The Province also has implemented a number of measures to protect agricultural and recreational land, including a plan to preserve the Niagara Escarpment.⁵

Education and Health During the 1960's, education policies were characterized by:

- substantial upgrading of the quality and scope of education at all levels; and
- rapid expansion of facilities to accommodate the sharp increase in student population, and the need to diversify and expand the skills of the labour force.

A major feature of these policies was the rapid expansion of the post-secondary education system, with the establishment of a number of new universities and colleges of applied arts and technology. In the early 1970's, with the investment program for facilities largely completed and enrolments stabilizing, the policy emphasis shifted to reducing the growth rate in operating costs. The annual expansion in provincial expenditures for educational operating costs, which in the late 1960's had ranged well over 15 per cent, was reduced to a level that has averaged below 10 per cent annually over the last three years. In addition, medical facilities in Ontario are equal or superior to those of most industrial countries. For example, Ontario has one of the most favourable ratios of physicians to population in the western world.⁶

4. See Hon. John Robarts, "Design For Development, Phase 1," Statement in the Ontario Legislature, April 5, 1966, and Hon. John Robarts and Hon. W. Darcy McKeough, "Design For Development, Phase 2," Statements in the Ontario Legislature, November 28, 1968 and December 2, 1968.

5. See *Development Planning in Ontario: The Niagara Escarpment* (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs), June, 1973.

6. See Dr. J. F. Mustard, *Report of the Health Planning Task Force* (Toronto: Queen's Printer), January, 1974.

Income Redistribution The Ontario Government has implemented a number of programs to reduce the tax burden of the elderly and the poor. In addition to the property and sales tax credits and pensioner credits, the Province has introduced a new guaranteed income system (GAINS) which provides supplementary benefits to low-income pensioners and the disabled.

Income redistribution policies have also been pursued through a wide range of provincial expenditure programs, particularly in the areas of housing, health, community and welfare services. The Committee feels it worth noting that the financial underpinning for these programs has been a flourishing private sector and that this dependency on the private sector will not be any less significant in the years to come.

Chapter III:

FUTURE DIRECTIONS FOR ECONOMIC POLICY IN ONTARIO

Basic to Ontario's economic strategy must be a business climate which encourages both a high rate of economic performance and the achievement of social and cultural objectives. Centralized, government-controlled economic planning is not desirable. It would undermine the traditional and successful reliance on the market economy and be an administrative nightmare. The basic tenet of economic policy should be the recognition that a strong private sector provides the most efficient means of achieving economic performance. The key, therefore, is to adopt a flexible and adaptive approach for policy-making, rather than one which is rigid and monolithic. The market system is generally acknowledged to be the most sensitive and reliable mechanism for efficient resource allocation.

The Committee's approach to future economic policy has been oriented both to improving the effectiveness of existing programs and developing new policies. More specifically, the Committee feels new initiatives should be directed to improving policy coordination, productivity and economic management.

Policy Coordination

The federal and provincial governments share responsibility for economic development. While the federal government has an umbrella responsibility for large areas of economic development policy, particularly short-term stabilization measures, the provinces have key economic policy responsibilities in areas such as natural resource management, energy, transportation and the provision of basic services. The two jurisdictions have traditionally shared responsibility for manpower planning and small business development.

However, in both the past and present, the degree of coordination between the two levels of government has fallen well below an acceptable standard. The Committee is very concerned about the absence of policy coordination, and the resulting:

- lack of an overall economic development strategy;
- uncoordinated fiscal policies and related high deficit levels in the provincial-municipal sector; and
- competitive federal and provincial tax policies.

A number of additional issues could be cited where the inability of the federal and provincial governments to coordinate their policies effectively has precluded the development of better programs. In contrast, the steps taken by the Ontario Government towards improved provincial-municipal finance and coordination demonstrates the progress that can be achieved in the field of intergovernmental coordination.

The Committee endorses recent statements by the Premier of Ontario that closer federal-provincial cooperation must be accompanied by economic policy

coordination among the provinces themselves.⁷ A unified national economic strategy can only be based on a common understanding and approach among the provinces and the federal government on major economic issues. This would also facilitate an improved business development climate in each province and reduce uncertainties with respect to future government actions.

Recommendation 2:

The Ontario Government should continue to make every possible effort to improve federal-provincial and interprovincial economic coordination, in order to reduce the climate of uncertainty surrounding the development and effect of new economic policies.

The process of consultation between the federal and provincial governments could be improved significantly by establishing an institutional mechanism for regular and frequent consultation and extensive information exchange on economic matters. The scope of such a body should include regular consultations with private organizations. The most appropriate means of achieving this would be to strengthen, expand and regularize existing federal-provincial arrangements such as the First Ministers' meetings or the Conference of Ministers of Finance.

Recommendation 3:

The Ontario Government should propose that an existing intergovernmental forum, for example, the Conference of Ministers of Finance, should meet more regularly to consider economic matters and should establish an impartial support mechanism for information exchange and policy development.

Government today has a tremendous impact on the business sector. Changes in taxation or regulations concerning the environment, land use, or terms of employment can have a serious and unexpected effect on even the largest corporate enterprises. Adverse effects could be minimized through advance warning and consultation with the private sector.

This problem is particularly severe at present as a result of the lack of co-ordination in tax policy between the federal and provincial levels of government. At a time when public spending in Canada is approaching 40 per cent of the country's total output, relatively small changes in tax policy may have serious repercussions for specific groups within the private sector.

As a related issue, the tradition of fiscal independence and complete budgetary secrecy should give way to mutual discussion and understanding about the role of each level of government in its fiscal policies and an appreciation of the adverse consequences of uncoordinated action.

Recommendation 4:

The budgetary process should be opened at both the federal and provincial levels of government to permit consultation and coordination of tax and fiscal policies.

7. Hon. W. G. Davis, "Remarks to the Conference Board in Canada," Vancouver, B.C. (mimeo) May, 1974.

Productivity Enhancement

Increases in the standard of living are dependent upon increases in the productivity of the work force in both the private and the public sector. Therefore, in addition to improving coordination, a second major area of concentration for future policy should be improving productivity. Increases in private sector productivity are primarily the responsibility of entrepreneurs and managers. However, the Committee believes that government can make a positive impact in at least three areas:

- management and technology;
- support of small businesses; and
- competition policy.

Management and Technology

Managerial, marketing and technological skills have a profound impact on the progress of individual firms and, therefore, on the economy as a whole. Studies indicate that these skills are deficient in Ontario compared with businesses in the United States, that Ontario businesses employ somewhat fewer managers than their U.S. counterparts, and that Ontario managers on average have less formal education and training. In part, this difference relates to more limited formal training opportunities for Ontario managers after they join a company. This problem is particularly severe among smaller Canadian firms which do not fully utilize modern management techniques.

The Committee is in agreement that it is desirable to improve management skills in Ontario. It believes, however, that programs should be tempered by the realization that management skills required in Canada might differ somewhat from those required in other countries because the Canadian economy is smaller and regionalized. While research into the nature of these differences is at present limited and fragmented, the Committee feels that traditional management education may inadequately prepare young Canadians for effective performance in the Canadian business environment.

Recommendation 5:

The Province should encourage: research into management skills adapted to the Canadian economic environment, dissemination of the results to Canadian managers and business schools, and programs of continuing education for businessmen. It may well be desirable to set up, possibly with private funds, a Canadian centre for management science.

The Committee sees as a particular problem the need in growing small businesses, with sales ranging from \$1 to \$5 million per year, to hire good second level executives to relieve top executives of some of their responsibilities. It is important to provide education and experience which would qualify executives for these second level positions — in finance, production and marketing — in companies which require them to combine professional expertise with the ability to manage people on the line.

Recommendation 6:

Management research and education should be directed particularly towards the problems of small businesses.

To date, federal programs have tended to support the research portion of the innovation process. However, research forms only a small part of the total cost of bringing new products to market. Moreover, this emphasis does not necessarily result in marketable innovations. Many Canadian companies lack the technical and managerial capability to carry such developments from initial research through manufacturing to the marketplace. Accordingly, it is the post-research or development stage where more emphasis should be placed in government policies and private sector actions.

Recommendation 7:

The Province should, in conjunction with the federal government, develop a coordinated policy emphasizing the development of marketable technology.

Support of Small Businesses

The Province of Ontario, along with other jurisdictions both in Canada and abroad, has continually supported small businesses through special programs and tax incentives. Among the many reasons for such support are the following:

- Starting and operating a small business provides many people with the opportunity of making their own decisions and shaping their own future.
- Small businesses are particularly vulnerable to changes in economic conditions and government policies.
- Small businesses are in large proportion Canadian owned and operated. In the longer term, the growth of the Canadian-controlled business sector will depend heavily upon the expansion of small Canadian businesses.
- Small businesses are often labour intensive and provide new opportunities for employment and the attainment of skills. Local owners, moreover, may be more aware of and better able to respond to changes in local labour market conditions than are larger concerns.

The Committee attaches considerable importance to the problem of helping small business, and to the role of both the public and private sectors in maintaining its future development. Certain economic factors particularly evident in today's society will encourage the creation of new business enterprises. For example, the growth of a sophisticated economy with a diversity of specialized markets has encouraged the establishment of small businesses in the rapidly growing service sector.

While the number of new businesses established in any one year lies between 5 and 10 per cent of the total existing businesses, about three-quarters of these new ventures are discontinued within five years. Analyses of bankruptcies indicate that by far the major reasons for failure involve poor planning and a lack of sound financial control. The most common reason given by suppliers of venture capital for refusing financial support to new high technology ventures is their poor management.

Programs using retired business executives as advisors to small businesses have worked well wherever they have been tried. For example, the Ontario Development Corporation makes some use of the skills of retired businessmen in assisting companies to which it makes loans. The federal government is also experimenting with such a program. The Committee believes that the

Province should be closely involved in any federal initiatives in Ontario to ensure that federal advisors are well aware of the kind of help the Province can give to small businesses.

Recommendation 8:

The Province should expand its programs using retired business executives as advisors to small businesses.

Economic activity is becoming more complex and the key to survival and growth of small businesses lies in improved management and a more sophisticated use of specialized services, such as marketing, accounting and engineering. Some of the most successful small businesses obtain benefits, for example, as members of cooperatives or franchises. Similarly, successful small businesses frequently use a range of specialized services.

Therefore, to help small business the Province of Ontario has developed a substantial program which compares very favourably with programs offered by other governments, both in Canada and abroad. These programs include:

- field staff drawn from Ontario Research Foundation engineers who contact almost half the province's small manufacturing companies each year to provide technical information services and advise companies about government programs available to them;
- support for summer programs at most universities through which MBA students offer aid to small businesses with a follow-up service provided through the Ministry of Industry and Tourism's regional offices;
- a "venture capital" summer employment program to enable students to learn first-hand how to set up and operate a small business;
- financing by the Ontario Development Corporation for small and medium size businesses in Northern and Eastern Ontario; and
- tax incentives for the establishment of venture investment corporations.

The Committee believes that the Province has an opportunity to strengthen and integrate its basic programs supporting small business. The approach would be similar to the existing Ontario program which provides a full range of research and management services to farmers through agricultural representatives.

Recommendation 9:

In view of the continuing need for emphasis on improved management in the private sector, the field services program for small business should be extended to areas such as marketing, accounting, and personnel management to supplement services available from the private sector, but which small businessmen may not be able to afford at the early stages of their development.

The Committee is concerned about certain inefficiencies in the venture capital intermediation process. The small number of venture capital sources in Canada, and their tendency to specialize, has meant that the matching of potential entrepreneurs with potential Canadian investors is frequently difficult.

Recommendation 10:

The Province should provide an information clearing house for managerial and venture capital concerns.

In addition, the Committee is concerned about problems faced by small businesses in seeking government assistance. As the regulatory climate and the processes of government become increasingly complex, small businesses have great difficulty in cutting through bureaucratic "red tape" at both the federal and provincial levels.

Recommendation 11:

The Province should consider establishing a "one stop shop" system which would help small businesses get through the maze of government programs.

Recommendation 12:

It is important to ensure that small businesses are not discouraged from pursuing government contracts because of government procurement procedures. In particular, it may be desirable in certain circumstances to give preferences to small businesses in these procedures.

Competition Policy

The need for changes in the Combines Investigation Act has been recognized by the federal government in recent legislative proposals. These include the provision of additional prohibitions against certain uncompetitive business practices, a number of new consumer protection measures and the establishment of a Restrictive Trade Practices Commission with wide discretionary powers. In addition, the service industries would be brought within the ambit of existing competition legislation.

Improvements in existing competition legislation are clearly important to Ontario's future economic expansion. A well-conceived competition policy will further economic growth by maximizing efficiency in the use of resources through the maintenance of a healthy market system. Such a policy reflects the belief that, in most cases, competitive market forces provide the best means of allocating resources.

It is important, however, to ensure that competition policy is carefully formulated so that it is coordinated with other social and economic objectives, responsibility for which often rests with the provincial level of government. In addition, federal and provincial competition legislation frequently overlap.

The Committee is encouraged to find that the process of consultation and coordination regarding these issues is beginning both as a result of the federal white paper and the provincial response.⁸ While a detailed review of the various recommendations and comments about the proposed legislative changes is not possible here, a number of observations are in order.

Domestic market competition in many instances could be improved by a more flexible attitude toward trade and tariffs. In a relatively small economy such as Canada's, market sizes are frequently limited and highly protective trade policies may result in small and inefficient plants. Rationalization of selected industries, as was the case with the automobile industry under the auspices of the Auto Pact, may allow the development of world-scale operations. These can reap the advantages of economies of scale through access to export

8. See, The Hon. Herb Gray, *Proposals for a New Competition Policy for Canada: First Stage* (Ottawa: Consumer and Corporate Affairs), 1973, and Government of Ontario, *Commentary on the Federal Government's Competition Legislation* (mimeo) April, 1974.

markets, while competition in domestic markets can be ensured by the presence of foreign imports.

Recommendation 13:

Competition policy should be coordinated with trade policy to encourage the development of a more efficient industrial structure in Canada.

A related problem is that the proposed competition legislation may impede industry's attempts to upgrade its research and development capabilities which provide the foundation for economic performance. The Committee considers it imperative that competition policy be compatible with policies designed to encourage research and development in Canada.

Recommendation 14:

Competition policy should be coordinated with science policy to ensure that opportunities for research and product development in Canada are maximized.

A particularly disturbing facet of the federal government proposals for legislative changes is that appointed boards apparently will be given considerable policy-making authority as well as the responsibility for carrying out these policies. The Committee is concerned that policy-making authority should be retained by the responsible legislative authorities, so that changes in policy are made only as a result of broad public discussion and debate. Such circumstances, together with the absence of adequate precedents, make it very difficult for business to know in advance what are considered acceptable commercial practices. This climate of uncertainty impedes private sector decision-making and, thereby, economic performance, while providing only minimal advantages in terms of increased competition.

Recommendation 15:

No appointed body, such as the Restrictive Trade Practices Commission, should be empowered to authorize major policy initiatives which might heavily influence the structure of the Canadian economy. This function is clearly the responsibility of Parliament.

Management of the Economy

In the two previous parts of this chapter, the Committee has considered improvements in economic policy coordination and productivity. A third major area of future concern can be described as overall management of the economy. This section identifies some policy highlights which the Committee feels will be particularly important in the development of future economic management policies; specifically, expanding trade opportunities, controlling inflation, and ensuring that future capital market and manpower policies are consistent with economic development objectives.

International Trade

Recent changes in world economic conditions arising from higher oil and other commodity prices will significantly alter the distribution of international indebtedness. This in turn could affect Ontario's rate of growth and economic structure, particularly since foreign trade is a major source of income for the

provincial economy. In 1973, for example, merchandise exports and imports accounted for approximately 21 per cent and 19 per cent respectively, of the Gross Provincial Product.

This degree of dependence on foreign trade is one of the highest among major industrial countries. In 1972, the value of Ontario exports per capita was \$1,188, about five times that of the United States and considerably above the Canadian average. One-third of Canada's exports are finished products, and most of these are automotive products covered by the Auto Pact with the United States. Two-thirds of Ontario's exports are finished products, a large component of which are automotive products. Exports of Canadian finished products frequently have been hindered by the existence of trade barriers in countries which have been intent on promoting their own trading and industrial interests. These barriers take many forms, including high tariffs, quotas and indirect subsidies.

The Province, therefore, consistently has supported multilateral trade liberalization in the context of GATT negotiations in order to gain wider access for exports of Canadian processed raw materials and finished products. In view of Canada's extensive trade with the United States, however, there has been a continuing practice of bilateral negotiation, in such areas as auto and defense production.

Recommendation 16:

Ontario should continue to press for multilateral trade liberalization in the context of GATT negotiations in order to gain wider access for Canadian exports of processed resources and finished products. Until such agreements are reached it may be necessary for the Province, in conjunction with the other provinces and the federal government, to continue to seek methods to offset selective discrimination against exports of finished products from Canada. Such a program should include the encouragement of processing of natural resources in Canada.

Recently, world economic conditions have changed dramatically. Substantial bottlenecks in the supply of commodities such as food, lumber, steel, metals, oil and petroleum derivatives occurred in 1973 and the early part of 1974. These bottlenecks aggravated price pressures and, when associated with the huge increases in energy prices substantially at variance with those which would prevail in competitive markets, resulted in:

- massive transfers of purchasing power from Japan, the European Economic Community and many less developed countries to oil-producing regions such as the Middle East, Venezuela, Nigeria and Indonesia; and
- large increases in speculative and investment funds seeking new and safe "inflation-proof" investments such as land.

Canada is fortunate to have substantial reserves of most commodities in world-wide short supply. As a result, opportunities for exports of these commodities have increased sharply and have contributed to the country's continued economic growth at a rate higher than in most industrial countries. Canadian manufacturers and exporters of finished products, however, have encountered

shortages in the supply of raw materials — often those produced in Canada — as a result of high foreign demand.

Recommendation 17:

Where commodity markets are not competitive and international prices and availability are dependent upon a small group of price setters, the federal and provincial governments should consider mechanisms to ensure security of supply of crucial raw materials to Canadian producers. One possible mechanism is the development of two-price systems for some commodities, but this would require careful study before implementation.

A related issue is the increasing tendency of foreign governments to become involved in international trade. In some countries international trading is conducted through government trading corporations, some of which prefer dealing on a government-to-government basis rather than with private industry. This development has increased the difficulty of exporting for many Canadian firms, particularly for smaller manufacturing corporations.

Recommendation 18:

As governments increasingly become involved in international trade, Ontario exporters, and especially smaller manufacturers, need the increased support of the Province in seeking out new markets and effecting trade agreements. In this connection, it may well be advisable to establish an Ontario trading corporation in cooperation with private industry and perhaps other governments.

Control of Inflation

Stabilization of prices must be a major priority of all levels of government. The Committee believes that the continued increase in prices at a more rapid rate than output constitutes a major threat to our capacity to achieve longer run economic and social objectives. The Committee cannot agree with suggestions that we somehow “learn to live with” inflation. Government can make a significant contribution towards containing inflation by controlling its own spending. Over the next several years it will be particularly important for all levels of government, and especially the federal level, to introduce measures to contain expenditures.

Recommendation 19:

The major long-term measure which government should undertake to control inflation is to limit its own spending growth and deficit financing. The provinces and the federal government should adopt as a long-run target total spending growth no greater than the overall growth rate in the economy.

Since price increases are more severe in some sectors than in others, it is necessary to supplement overall policies with specific measures to contain rapidly rising prices. In addition, federal-provincial coordination is mandatory where the jurisdictional responsibility is shared.

Recommendation 20:

Housing and food costs can be significantly affected by both federal and provincial policies. Governments should mobilize economic and technical resources to stabilize prices in these sectors on a priority basis.

Recommendation 21:

The Province should continue to work with other governments in Canada to encourage the development of long-term economic stabilization plans to control inflation in Canada.

The Committee appreciates that the problem of controlling inflation is aggravated by expectations of continuing price increases. The result is that wages and prices begin to reflect allowances for accelerating price levels thereby perpetuating the spiral. The federal policy of blanket indexing of income tax and social security payments, while aiding those in need, may have the disadvantage of contributing to inflation psychology. A more appropriate course would be a policy of selective changes tailored to individual purchasing and income patterns. In addition, the Committee is very concerned that the principle of indexing might be rapidly extended to cover a broad range of costs, prices and incomes without full understanding of the long-run effects.

Recommendation 22:

Major indexing programs implemented to date should be regarded as interim measures and before there are major extensions of the indexing principle, there should be a comprehensive examination of its long-run implications for future economic development and income redistribution.

Capital Markets

In the next decade it is anticipated that there will be a high demand for capital investment in Canada in areas such as natural resource and energy projects, new transportation systems, housing and land development and expansion of manufacturing capacity. It is not clear that domestic sources will be able to supply adequately these potentially large requirements.

The possible shortfall could be met largely by increased foreign investment, as in the 1950's during a similar period of rapid resource development. However, this option does entail risks of increased foreign control. Another alternative which would contribute to meeting these large investment requirements would be government measures to increase domestic savings.

The implications of these alternatives will require a great deal of further discussion and analysis. However, at this stage there is one major area where governments could begin to concentrate their efforts. Since government has become a significant user of capital funds, a priority should be to ensure that its demands on capital markets are coordinated and not excessive. This will be particularly important in the next decade since major new public expenditures, such as land acquisition, community development and energy investments, will be highly capital intensive.

The Committee is particularly concerned about the growing use of deficit financing at the provincial level. One of the determinants of this is the current nature of federal-provincial financial arrangements which is apparently characterized by a lack of federal willingness to transfer an increased portion of its high revenue growth to the provinces. This could produce an over-reliance by the provinces on debt financing.

Recommendation 23:

Government demands on the capital market should be reduced and better coordinated. Accomplishment of this objective will require improvements in the existing structure of federal-provincial finance.

It also may be necessary in future for the public sector to consider a role in coordinating major capital projects in order to stabilize their impact on capital

markets and general economic conditions.⁹ Some proposed investment projects involve massive capital financing implications. The disruptive impact on the economy of such projects could be substantial. Governments, therefore, should improve their ability to assess and forecast future capital investment requirements and consider setting up special joint private-public coordinating machinery.

Recommendation 24:

The federal and provincial governments should devise an appropriate cooperative procedure to ensure coordination of large-scale private and public investment projects so as to avoid excessive pressures on the capital market and the economy in general, particularly for large natural resource projects contemplated for the next decade.

Manpower and Immigration

The Joint Committee recognizes the importance of manpower policy to future economic and social development. Following from early discussions with the Committee, the Ontario Government established a Manpower Coordinating Committee which now functions under the direction of a Minister without Portfolio. It is developing policies to:

- improve the effectiveness of existing manpower programs;
- provide liaison among the various ministries concerned; and
- coordinate the activities of the federal and provincial governments in manpower policy in Ontario.

The establishment of the Ontario Manpower Coordinating Committee has met one of the main concerns of the Joint Committee, that is, improvements in coordination of manpower policy within the provincial government.

The Committee has further concerns about manpower development and, in particular, the need for better federal-provincial coordination in improving existing programs to meet future employment needs. The high rate of capital investment anticipated for the remainder of this decade will carry with it a high demand for skilled labour. At the same time, the concentration of employment opportunities in a limited range of skills, for a limited duration of time, and frequently in inaccessible areas, creates severe difficulties in securing manpower requirements.

Immigration has for some years been associated closely with manpower policy. As a result, the chief criteria used to determine the number, type and destination of immigrants allowed into Canada have been related to the requirements of federal manpower policy. However, immigration also affects the development of social welfare policies which are primarily the responsibility of the provinces. A high level of immigration can have a substantial impact on the quantity, type and quality of services which the provinces and municipalities

9. For discussion of the potential impact of one large project on the Canadian economy, see R. G. Fletcher, "The Economic Impact of the Mackenzie Valley Gas Pipeline Project," *Ontario Economic Review*, Vol. II, No. 3 (November/December 1973), p. 4-13.

can and should offer. Accurate foreknowledge of immigration trends is therefore important in anticipating the proper magnitude of provincial programs.

Recommendation 25:

The federal government should provide advance indication of its intentions regarding immigration policy so as to allow the Province to adjust its manpower and social programs accordingly.

It is essential that the long-run requirements of industry in terms of skills and experiences be recognized. Both the over- and under-supply of persons of a particular skill category can only lead to hardship and social problems.

Recommendation 26:

Immigration policy should be more responsive to society's needs to overcome gaps in skill availability. This will require closer monitoring of future employment needs and coordination with overseas immigration offices.

In view of the rapid increase in the labour force which is anticipated to continue through this decade and the likelihood of substantial capital investments, the problem of matching Canadians to jobs may well become of increasing importance. It is essential, therefore, to ensure that manpower retraining programs have maximum effectiveness and are responsive to employers' needs. A particularly attractive method to accomplish this is to link the needs of employers into the education process as closely as possible.¹⁰

Recommendation 27:

Job retraining systems should have increased flexibility and responsiveness to both personal aspirations and employer needs by a reduction in the financial and institutional barriers to placement and training.

An increasingly important element in the development of manpower policy is the maximization of employment and career development opportunities for women. The Committee wishes to affirm its belief that a priority of the Province's manpower policy should be to ensure that women can broaden their career horizons through increased job opportunities, education and retraining.

Recommendation 28:

The Government should intensify its efforts to work with the private sector to achieve equality of opportunity and remuneration for women in the labour force.

10. Report of the Commission on Post-Secondary Education in Ontario, *The Learning Society* (Toronto: Queen's Printer), 1972, Chapters 6 and 8.

Chapter IV: ECONOMIC AND SOCIAL POLICIES IN THE PUBLIC SECTOR

To some degree there will always be conflict between economic and social objectives. Those who stress the economic side advocate reinvestment of society's resources in economic development so as to ensure continuing expansion in the levels of income and wealth. They regard many government spending programs as an unproductive drain on economic incentives and productivity. Those who stress social objectives emphasize the need to redirect income generated by productive enterprises to social investments, and to redistribute income among citizens. This age-old debate is arbitrated by elected governments which continually must define the relative emphasis to be placed on social and economic goals. In more direct terms, government must weigh the public distaste for, and the economic impact of, higher tax levels against social needs and demands for more and better public services.

The Joint Committee did not see its role as taking sides in such a debate. It has stressed the continuing need for strong economic performance but it also acknowledges the continuing need to fulfil social objectives through public sector programs. In the Committee's view, the most important thing is to identify the best ways for government to reconcile these objectives so as to maximize social progress within a framework of continuing economic prosperity. This section is devoted to identifying the key areas of policy development and coordination which can achieve this harmonization.

Social Policies and Public Spending

The increasing demands on government to respond to a wide range of social priorities have resulted in a high level of public spending in Ontario and Canada. Spending by all levels of government accounted for 33 per cent of the total output of Ontario and 37 per cent of the total output of Canada as a whole in 1973.¹¹ There is no consensus regarding the appropriate level of public expenditures in relation to total output. However, the Committee agrees with the Economic Council of Canada that recent expansion in public expenditures has been too fast.¹² Over the past decade, federal and provincial expenditures have been increasing at an average rate of 11 per cent compared with 9 per cent growth in the economy as a whole.¹³

Although increasing aspirations by citizens have led to greater demands on government to provide more public services, the Committee believes that public spending should not continue to increase at a rate in excess of overall economic growth. Otherwise resources would have to be appropriated by way

11. Hon. J. White, "Ontario Finances" *Ontario Budget*, Budget Paper C (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs), 1974.
12. Economic Council of Canada, Tenth Annual Review, *Shaping the Expansion* (Ottawa: Queen's Printer), 1973.
13. Statistics Canada, *National Income and Expenditure Accounts* (Ottawa: Statistics Canada), various issues.

of increasingly higher taxes on individuals and businesses. This would impair seriously Ontario's future capacity to achieve desired levels of either economic or social growth.

At the same time, the Committee recognizes that it is unrealistic to call for a decrease in the rate of expansion in public spending on social programs without suggesting the basis of an operational plan to achieve that objective. It also recognizes the primacy of certain social goals and the need for public action to achieve them. However, this should be within the context of a continuous review and evaluation of expenditures to ensure that obsolete or unneeded programs are discontinued. To do this effectively, clear priorities need to be established.

Recommendation 29:

It is essential to establish priorities among social objectives within a framework of limited resources. This requires substantial improvement in the efficiency of public spending through close matching of program effectiveness and cost.

One important element of controlling public spending is an improved system for managing policy development and program delivery. In 1970 Ontario established a Committee on Government Productivity, and as a result of its recommendations, the Province has implemented fundamental improvements in overall policy and program coordination.¹⁴ In part, the success of the system is reflected in the Province's lower expenditure growth rate and in its capacity to shift priorities to lower the rate of growth in certain large expenditure programs.¹⁵

The process initiated by the Committee on Government Productivity should be extended, particularly to the level of program management, so that performance criteria are used to test both the effectiveness and efficiency of individual programs. To forward this approach, the Joint Committee spent a considerable amount of time reviewing the existing system of program management and concluded that the Province should adopt a formal "management by objectives" approach to the evaluation of its programs.

Recommendation 30:

The Province should implement a comprehensive "management by objectives" system to assist in program evaluation and development.

In addition to recommending the implementation of new and sophisticated management techniques applicable to the public sector, the Committee believes that program responsibilities should be decentralized. The Committee, therefore, supports the decentralization of responsibilities to local government in Ontario and the deconditionalization of provincial-municipal grants.¹⁶

14. Committee on Government Productivity, *Report Number Ten: Report to the Executive Council of the Government of Ontario: a Summary* (Toronto: Queen's Printer), 1973.

15. See Hon. John White, "Ontario Finances," *Ontario Budget, 1974*, Budget Paper C (Toronto: Ministry of Treasury, Economics and Intergovernmental Affairs), 1974.

16. See, for example, Hon. Charles MacNaughton, "The Reform of Taxation and Government Structure in Ontario," *Ontario Budget 1969*, Budget Paper B (Toronto: Department of Treasury and Economics), 1969 and also Hon. John White, "Financing Development of Local Government," *op. cit.*

These changes, together with expenditure restraint by both levels of government, should reduce unnecessary administrative overlap in program delivery.

The extension of this principle to federal-provincial finance would be an important step towards improving public administration and expenditure control. The Committee notes that the costs of programs, financed by federal-provincial sharing arrangements, have been one of the most rapidly escalating components of government expenditure.

While these programs have filled important needs for all Canadians, the Committee feels that there are significant opportunities to reduce total costs of these programs by tailoring them to the particular needs of the people in different regions of the country. This can be best done through deconditionalizing federal payments to the provinces.

Recommendation 31 :

Government responsibilities and financing should be decentralized as far as possible to improve program cost effectiveness. In particular, cost-sharing by the federal government should be deconditionalized as much as possible.

The Joint Committee endorses the concept that, where possible, government should receive services from the private sector through competitive tender rather than providing services itself.¹⁷ The Committee feels that significant cost savings could be attained by actively employing this principle.

Recommendation 32 :

In preference to providing the services itself, government, wherever possible, should contract for services from the private sector.

Decentralization of Economic Activity and Population

Economic growth in Ontario over the past several decades has been characterized by an increasing centralization of economic activity and population in large urban areas. This concentration of economic development has led to public concern about the pursuit of unmanaged economic expansion which can result in pollution, congestion and abuse of land resources.

One result of the public concern has been an increased awareness of the potential benefits stemming from a policy of decentralization of economic activity and population. While such a policy may help to achieve social objectives, it should be recognized at the outset that it may well reduce the province's potential for economic growth. The private sector, in particular, may have additional substantial costs associated with locating in areas not optimal from a production and marketing viewpoint. The Committee feels that it is essential that these private costs be included when the costs and benefits of various proposals for economic decentralization are weighed.

Bearing in mind the costs to private industry, the Committee is nevertheless aware that there can be a number of social advantages to more regionally balanced economic and population growth. Such an approach to future de-

17. The Committee on Government Productivity, for example, recommended that "commercial systems and programming firms be allowed to compete with the government systems and programming services for government business" in *Interim Report Number Five: Report to the Executive Council on Automatic Data Processing* (Toronto: Queen's Printer), February 1972, p. 21.

velopment would diminish the pressure on large urban areas in southern Ontario and provide the opportunity for improving the quality of urban life in all parts of the province. In addition, regional decentralization can contribute towards the preservation of Ontario's limited supply of agricultural land and offers the opportunity to alleviate regional income disparities by directing a greater proportion of employment to low-income areas.

Heavy urban congestion, perhaps more than anything else, has called into question the benefits of economic growth and of an ever-increasing population. Yet the financing of social benefits associated with an improved quality of life is dependent on a healthy economy. This is perhaps one of the major public policy dilemmas facing a modern industrial society such as Ontario.

It is the view of the Committee that decentralization offers a partial but significant way out of this dilemma. Decentralization reduces heavy pressure on land prices, the environment, recreational facilities and housing. At the same time, the cost of providing improved facilities may be lower in smaller communities. Increased decentralization may provide an environment in which citizens can more readily accept and support policies for encouraging economic growth and development.

In summary, the Committee believes that in the short-run policies for decentralization may involve additional costs, but in the longer run they may promote a more productive and healthier society.

Recommendation 33:

The Government should continue to emphasize decentralization policies, including the improvement of industrial opportunities in the less developed areas of the Province, and the development of new towns.

It should be stressed that federal and provincial policies to decentralize economic activity should be coordinated. Unless this is done, it is evident that the result will be fruitless competition among governments to encourage industry to locate in various depressed regions.

Recommendation 34:

Decentralization of economic activity and population should be closely coordinated by the federal and provincial governments to ensure that policies are complementary.

Balanced Growth

In its deliberations, the Committee has recognized that certain facets of unrestrained industrial development will place severe constraints on the ability of society to achieve important cultural and social objectives. At the same time, it must be appreciated that modifications to the market economy will involve certain costs in terms of overall output. The Committee believes nonetheless that government should play a role in ensuring some modifications in the pattern of industrial growth. In particular, government should encourage those forms of economic activity which contribute to the social stability of communities and preserve those threatened aspects of our environment which are of lasting social and cultural benefit to society.

Natural resource development is a key element in the Ontario economy, providing income and employment for a significant portion of our citizens. By its very nature, however, resource-oriented activity is not flexible with regard to location and community size. Consequently, such centres of activity, typically in the northern part of the Province, usually will require considerable social investment and frequently provide uncertain employment and income opportunities. The Committee recognizes, therefore, the role of government in attempting to increase the stability of such communities by encouraging greater natural resource processing, and attracting, where possible, other types of industry. Manufacturing activity tends to be more responsive to location incentives and can consequently provide the vehicle for achieving these social objectives.

Agriculture provides employment to a small and declining proportion of the Ontario labour force, and agricultural land in the Province is being encroached upon by other elements of the economy. The Committee believes, nonetheless, that in the long run, both cultural and economic benefits will accrue to the citizens of Ontario if prime agricultural land is preserved. The Committee notes that the Government has taken a number of steps to preserve prime agricultural land through its commitment to land use planning, tax and financial incentives for family farms and the decentralization of industrial activity.

Recommendation 35:

As two important steps in promoting balanced growth in the economy, the Province should intensify its efforts to diversify the industrial base, by increasing natural resource processing, and protect prime agricultural land and the family farm.

Foreign Ownership

The flow of foreign investment into Canada, particularly since World War II, has meant that large proportions of the Canadian economy are now controlled by residents of other countries. Awareness of the complex problems involved in foreign ownership has increased sharply in recent years, focusing on the impact on cultural as well as economic development. In particular, there is concern that the operations of a branch plant industrial structure may result in less emphasis on local research and development and discourage the penetration of export markets. In addition, there is concern that it may create market fragmentation and result in excessive extraterritorial political and economic influences.

The Joint Committee agrees that there is justification for the general concern with the problems arising from foreign ownership and control. At the same time, the Committee does not favour a sudden or sharp break with past policies. Instead government should follow an evolutionary but comprehensive policy which would recognize that debt financing from foreign sources may be necessary to meet future capital requirements.

Recommendation 36:

Ontario should support and implement policies which gradually increase Canadian control of the economy. At the same time, foreign investment policy should evolve within a framework which ensures that Canadians are able to borrow abroad to finance major capital projects envisaged for the next decade.

The federal government has taken a number of steps to control direct foreign investment in Canada. Until recently, these have generally involved limitations on the degree of foreign ownership or control in specific industries such as broadcasting, airlines, insurance, finance and banking. However, in 1973, the Foreign Investment Review Agency was established to screen major proposed acquisitions in all areas by foreign interests to ensure their “significant benefit to Canada”.

The Committee is concerned that the Review Agency apparently possesses wide powers not subject to the guidance of clear criteria and appeal in an open forum.

Recommendation 37:

Clear criteria should be established to guide foreign ownership, and reviews should be conducted in an impartial and more open forum.

The Committee notes that the Province has initiated a number of measures to encourage greater Canadian control of the economy, including:

- restricting non-resident equity participation in loan and trust companies, in the securities industry and in periodical and paperback distribution;
- requiring that a majority of the directors of Ontario companies be resident in Canada, that there be a Canadian at each meeting and that a majority of board meetings be held in Canada; and
- increasing the land transfer tax to 20 per cent on certain real estate purchases by non-residents of Canada.

The Committee also notes that in 1971 the Ontario Government established a Select Committee of the Legislature on Economic and Cultural Nationalism. The Select Committee has to date produced a number of reports on various aspects of the foreign ownership problem. It will be important for the Ontario Government to produce a comprehensive response to these reports and to develop a clear view of what its future policies will be.

In the matter of intergovernmental policy coordination, it should be noted that foreign ownership issues cross federal-provincial jurisdictions. If the federal government and the provinces adopt inconsistent policies, a highly uncertain business environment will be created. This atmosphere of uncertainty could limit the province’s investment, employment and income potential.

Recommendation 38:

Federal and provincial policies on foreign ownership should be coordinated to ensure their compatibility with other social and economic objectives and to minimize uncertainty and disruption in the private sector.

Chapter V: CONCLUSION

With this report, the Joint Committee has completed one of its major tasks, which was to outline broad directions for a set of Provincial economic development policies suited to the aspirations of the people of Ontario.

The Committee recommended three important principles which should guide the development of future policies. First, government should clearly define its social objectives and priorities. Second, to improve its effectiveness, government must develop better management capacity and encourage similar development in the private sector. Third, government, in conjunction with the private sector, should develop and implement a coordinated economic strategy consistent with these social objectives.

In line with the above principles, the recommendations of this report have centred on four main themes:

Social Goals The achievement of social objectives requires a strong economy and a vigorous private sector. However, today, the public demands that economic performance be compatible with broad social objectives. Accordingly the Committee has identified key areas of public policy which provide strong potential for the integration of social and economic objectives. The Committee sees this taking place within a framework of economic decentralization, diversified employment and an evolutionary increase in the level of Canadian control of the economy.

Performance The Committee has identified key future economic issues where improved policy development and coordination will be needed to ensure progressive economic performance. In addition, it has set out a preliminary outline for future policy development in areas such as improvement of productivity, coordination of manpower and capital requirements, and maximizing the general stability of the economic environment.

Management Given the large share of society's resources which are drawn upon by government, it is increasingly important that these be utilized within a tight priority setting and expenditure control system. To this end the Committee has recommended the adoption of a "management by objectives" system and the decentralization of program responsibilities.

Coordination In Canada, eleven governments formulate and implement economic policy. Closer interprovincial and federal-provincial coordination is mandatory to avoid duplication and competition within the public sector and excessive uncertainty within the private sector.

This report is not intended as a blueprint for future economic policy in Ontario. It is hoped, however, that it will stimulate discussion, formulation and refinement of new economic policies. It is the view of the Committee that governments should attempt increasingly to view their economic and social policies in a more unified and coordinated way. This would be facilitated by publication of additional reports of this nature designed to further clarify and refine overall Provincial economic strategies.

Appendix A

LIST OF RECOMMENDATIONS

Recommendation 1:

The Province should adopt the following eleven social objectives.

1. To maintain and improve the level of health of the people of Ontario.
2. To provide equality of opportunity and access to education to enable individuals to fulfil their potential as members of society.
3. To ensure levels of general prosperity which provide maximum levels of employment and an equitable distribution of income.
4. To protect, conserve and improve the quality of the natural environment.
5. To achieve an acceptable level of social and economic interaction by ensuring the provision of transportation and communication facilities and services for the efficient and convenient movement of people, goods and information.
6. To ensure a safe, secure environment which protects the basic rights of individuals and society, and which provides the means for the just resolution of conflict.
7. To encourage and support the achievement of individual and collective cultural aspirations, and the development and preservation of national identity and unity.
8. To preserve and strengthen our heritage of responsible and responsive democratic institutions.
9. To manage the utilization of physical resources in order to provide optimum present and future social and economic benefits.
10. To encourage optimum population size, distribution and density with regard to economic goals, the quality of living conditions and the fulfilment of the previous nine objectives.
11. To achieve the preceding objectives within the limits imposed by maintaining sound and responsible fiscal and taxation policies.

Recommendation 2:

The Ontario Government should continue to make every possible effort to improve federal-provincial and interprovincial economic coordination, in order to reduce the climate of uncertainty surrounding the development and effect of new economic policies.

Recommendation 3:

The Ontario Government should propose that an existing intergovernmental forum, for example, the Conference of Ministers of Finance, should meet more regularly to consider economic matters and should establish an impartial support mechanism for information exchange and policy development.

Recommendation 4:

The budgetary process should be opened at both the federal and provincial levels of government to permit consultation and coordination of tax and fiscal policies.

Recommendation 5:

The Province should encourage: research into management skills adapted to the Canadian economic environment, dissemination of the results to Canadian managers and business schools, and programs of continuing education for businessmen. It may well be desirable to set up, possibly with private funds, a Canadian centre for management science.

Recommendation 6:

Management research and education should be directed particularly towards the problems of small businesses.

Recommendation 7:

The Province should, in conjunction with the federal government, develop a coordinated policy emphasizing the development of marketable technology.

Recommendation 8:

The Province should expand its programs using retired business executives as advisors to small businesses.

Recommendation 9:

In view of the continuing need for emphasis on improved management in the private sector, the field services program for small business should be extended to areas such as marketing, accounting, and personnel management to supplement services available from the private sector, but which small businessmen may not be able to afford at the early stages of their development.

Recommendation 10:

The Province should provide an information clearing house for managerial and venture capital concerns.

Recommendation 11:

The Province should consider establishing a "one stop shop" system which would help small businesses get through the maze of government programs.

Recommendation 12:

It is important to ensure that small businesses are not discouraged from pursuing government contracts because of government procurement procedures. In particular, it may be desirable in certain circumstances to give preferences to small businesses in these procedures.

Recommendation 13:

Competition policy should be coordinated with trade policy to encourage the development of a more efficient industrial structure in Canada.

Recommendation 14:

Competition policy should be coordinated with science policy to ensure that opportunities for research and product development in Canada are maximized.

Recommendation 15:

No appointed body, such as the Restrictive Trade Practices Commission, should be empowered to authorize major policy initiatives which might heavily influence the structure of the Canadian economy. This function is clearly the responsibility of Parliament.

Recommendation 16:

Ontario should continue to press for multilateral trade liberalization in the context of GATT negotiations in order to gain wider access for Canadian exports of processed resources and finished products. Until such agreements are reached it may be necessary for the Province, in conjunction with the other provinces and the federal government, to continue to seek methods to offset selective discrimination against exports of finished products from Canada. Such a program should include the encouragement of processing of natural resources in Canada.

Recommendation 17:

Where commodity markets are not competitive and international prices and availability are dependent upon a small group of price setters, the federal and provincial governments should consider mechanisms to ensure security of supply of crucial raw materials to Canadian producers. One possible mechanism is the development of two-price systems for some commodities, but this would require careful study before implementation.

Recommendation 18:

As governments increasingly become involved in international trade, Ontario exporters, and especially smaller manufacturers, need the increased support of the Province in seeking out new markets and effecting trade agreements. In this connection, it may well be advisable to establish an Ontario trading corporation in cooperation with private industry and perhaps other governments.

Recommendation 19:

The major long-term measure which government should undertake to control inflation is to limit its own spending growth and deficit financing. The provinces and the federal government should adopt as a long-run target total spending growth no greater than the overall growth rate in the economy.

Recommendation 20:

Housing and food costs can be significantly affected by both federal and provincial policies. Governments should mobilize economic and technical resources to stabilize prices in these sectors on a priority basis.

Recommendation 21:

The Province should continue to work with other governments in Canada to encourage the development of long-term economic stabilization plans to control inflation in Canada.

Recommendation 22:

Major indexing programs implemented to date should be regarded as interim measures and before there are major extensions of the indexing principle, there should be a comprehensive examination of its long-run implications for future economic development and income redistribution.

Recommendation 23:

Government demands on the capital market should be reduced and better coordinated. Accomplishment of this objective will require improvements in the existing structure of federal-provincial finance.

Recommendation 24:

The federal and provincial governments should devise an appropriate cooperative procedure to ensure coordination of large-scale private and public investment projects so as to avoid excessive pressures on the capital market and the economy in general, particularly for large natural resource projects contemplated for the next decade.

Recommendation 25:

The federal government should provide advance indication of its intentions regarding immigration policy so as to allow the Province to adjust its manpower and social programs accordingly.

Recommendation 26:

Immigration policy should be more responsive to society's needs to overcome gaps in skill availability. This will require closer monitoring of future employment needs and coordination with overseas immigration offices.

Recommendation 27:

Job retraining systems should have increased flexibility and responsiveness to both personal aspirations and employer needs by a reduction in the financial and institutional barriers to placement and training.

Recommendation 28:

The Government should intensify its efforts to work with the private sector to achieve equality of opportunity and remuneration for women in the labour force.

Recommendation 29:

It is essential to establish priorities among social objectives within a framework of limited resources. This requires substantial improvement in the efficiency of public spending through close matching of program effectiveness and cost.

Recommendation 30:

The Province should implement a comprehensive "management by objectives" system to assist in program evaluation and development.

Recommendation 31:

Government responsibilities and financing should be decentralized as far as possible to improve program cost effectiveness. In particular, cost-sharing by the federal government should be deconditionalized as much as possible.

Recommendation 32:

In preference to providing the services itself, government, wherever possible, should contract for services from the private sector.

Recommendation 33:

The Government should continue to emphasize decentralization policies, including the improvement of industrial opportunities in the less developed areas of the Province, and the development of new towns.

Recommendation 34:

Decentralization of economic activity and population should be closely coordinated by the federal and provincial governments to ensure that policies are complementary.

Recommendation 35:

As two important steps in promoting balanced growth in the economy, the Province should intensify its efforts to diversify the industrial base, by increasing natural resource processing, and protect prime agricultural land and the family farm.

Recommendation 36:

Ontario should support and implement policies which gradually increase Canadian control of the economy. At the same time, foreign investment policy should evolve within a framework which ensures that Canadians are able to borrow abroad to finance major capital projects envisaged for the next decade.

Recommendation 37:

Clear criteria should be established to guide foreign ownership, and reviews should be conducted in an impartial and more open forum.

Recommendation 38:

Federal and provincial policies on foreign ownership should be coordinated to ensure their compatibility with other social and economic objectives and to minimize uncertainty and disruption in the private sector.

Appendix B LIST OF STUDIES

The following studies were undertaken in support of the Joint Committee on Economic Policy:*

The Clarkson Company Limited, *Causes of Business Failure in Ontario*, March 1973.

Crispo, Dean J. and Dean J. Wettlaufer, *The Management Gap in Ontario*, April 1973.

Hatch, Dr. J. E., *Residential Mortgage Markets in Canada*.**

Holland, J. and M. Skornik, *Public Policy and Manpower Development*.**

Knight, Dr. R. M., *Venture Capital Financing in Canada*, September 1973.

Swartz, J., *A Study of Real Estate Investment Trusts*, September 1973.

J. F. Taylor & Associates Limited, *Quality of Management in Ontario Companies*, March 1973.

Urwick, Currie and Partners Limited, *The Quality of Management in Ontario*, March 1973.

Walmsley, Dr. M. F., W. Schabereiter and J. P. Warner, *Technological Innovation in Canada*, October 1973.

The following are papers prepared by the staff of the Ministry of Treasury, Economics and Intergovernmental Affairs in support of the work of the Joint Committee, and were subsequently published in the Ontario Economic Review:

Betanski, Z., "The Oil Crisis and World Trade," *Ontario Economic Review*, XII, No. 1 (January/February 1974) 1-9

Dallimore, D. C. and B. Lampert, "Demographic Trends in Ontario: Some Policy Considerations", *Ontario Economic Review*, XI, No. 5 (September/October 1973) 1-12

Ferik, Enedina and J. P. Warner, "The Future Structure of Ontario's Economy", *Ontario Economic Review*, XI, No. 6 (November/December 1973) 1-3

Fletcher, R. G., "The Economic Impact of the Mackenzie Valley Pipeline Project", *Ontario Economic Review*, XI, No. 6 (November/December 1973) 4-13

Jutlah, Dr. C. B., "A Long Term Economic Forecast For Canada and Ontario", *Ontario Economic Review*, XI, No. 4 (July/August 1973) 1-18

*Copies of these papers are available upon request from the Policy Planning Branch, Ministry of Treasury, Economics and Intergovernmental Affairs. (416) 965-7185

**To be published.



